

U.S. Department of Agriculture
Rural Telephone Bank
BALANCE SHEET
As of March 31, 2006
(Amounts in thousands)

	Liquidating Fund
ASSETS	
Assets for Use by Entity:	
Federal	
Fund Balance with Treasury (Note 2)	\$ 1,500,292
Interest Receivable (Note 3)	35,760
Total Assets	\$ 1,536,052
LIABILITIES	
Liabilities Covered by Budgetary Resources:	
Non-Federal	
B Stock Payable	525,991
C Stock Payable	909,237
Total Liabilities (Note 4)	1,435,228
COMMITMENTS AND CONTINGENCIES (Note 5)	
NET POSITION	
Federal	
Equity of the U.S. Government	
Capital A Stock	368,862
Transfer-Out of Loans Receivable	(303,762)
Total Equity of the U.S. Government	65,100
Non-Federal	
Unexpended Appropriations	0
Cumulative Results of Operations	35,724
Total Non-Federal	35,724
Total Net Position	100,824
Total Liabilities and Net Position	\$ 1,536,052

The accompanying notes are an integral part of these statements.

Treasurer's Report
U.S. Department of Agriculture
Rural Telephone Bank
COMPARATIVE STATEMENT OF NET COST
Fiscal Year 2006 by Quarter, and
For the Six Months Ended March 31, 2006
(dollars in thousands)

	Quarter Ended 12/31/05	Quarter Ended 03/31/06	Months Ended 03/31/06
Program Costs			
Intragovernmental Gross Costs			
Borrowing Interest Expense	\$ 0	\$ 0	\$ 0
Operating Expense	0	0	0
Total Intragovernmental Gross Costs	0	0	0
Less: Intragovernmental Earned Revenue	18,328	17,432	35,760
Intragovernmental Net Costs	(18,328)	(17,432)	(35,760)
Gross Costs with the Public	(3,930)	1,466	(2,464)
Less: Earned Revenues from the Public			0
Net Costs with the Public	(3,930)	1,466	(2,464)
Total Net Costs	\$ (22,258)	\$ (15,966)	\$ (38,224)

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Rural Telephone Bank
STATEMENT OF CHANGES IN NET POSITION
As of March 31, 2006
(Amounts in thousands)

	Liquidating	
	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	<u>\$ 1,773,420</u>	<u>\$ 0</u>
Budgetary Financing Sources:		
Transfers In/Out w/o Reimbursement	(2,500)	
Other Budgetary Financing Sources:		
B Stock Reclassification	(525,991)	
C Stock Reclassification	(909,237)	
Class B & C Stock Transferred from Financing Fund	30,670	
Transfers In/Out w/o Reimbursement	<u>(303,762)</u>	
Total Financing of Others	(1,710,820)	
Net Costs of Operations	<u>38,224</u>	
Ending Balances	<u><u>\$ 100,824</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of these statements.

RURAL TELEPHONE BANK

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Rural Telephone Bank (RTB), established in May 1971, provided a supplemental source of financing under the rural utilities telephone loan program. As part of the United States Department of Agriculture (USDA), Rural Development assisted rural electric and telephone organizations in obtaining the financing required to provide electric and telephone service in rural areas. RTB lent principally to rural telephone organizations.

RTB is a government corporation that functions as an agency of USDA, subject to the supervision and direction of the Secretary of Agriculture. As provided by law, the Administrator of the rural utilities program area serves as the Governor of RTB. In this capacity, the Governor may exercise and perform all of RTB's functions, powers, and duties, except for matters specifically reserved for its Board of Directors.

Adverse changes in the telephone industries could have a direct and material impact on the financial capacity of RTB borrowers to provide for the repayment of loans.

B. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position, net costs, and changes in net position of RTB as required by the Government Management Reform Act of 1994, and in conformity with generally accepted accounting principles (GAAP). GAAP for Federal financial reporting entities recognize the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body designated to establish these principles for these entities. The financial statements have also been prepared from the books and records of RTB in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements, with additional presentation disclosures to encompass RTB's unique business processes.

C. Basis of Accounting

RTB's transactions are recorded on the accrual basis of accounting and with respect to certain information regarding budgetary resources and financing, a budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred. Budgetary accounting is also necessary to facilitate compliance with legal constraints and controls over the use of Federal funds. Any significant interfund and intrafund balances and transactions have been eliminated in the consolidation of the pre- and post-credit reform lending programs.

D. Fund Balance with Treasury

RTB maintains all cash accounts with the U.S. Treasury. It is the policy of RTB not to maintain cash in commercial bank accounts, except in the normal course of processing cash receipts through third-party commercial banking institutions. Fund Balance with Treasury represents revolving funds that are available to pay current liabilities. RTB earns interest on all cash balances maintained at the U.S. Treasury in accordance with the terms of the 1973 note executed by RTB and U.S. Treasury, Section 505(c) of the Federal Credit Reform Act of 1990 and legislation (Public Law 109-97).

E. Loans Receivable, Net

As of October 1, 2005, loans obligated before 1992 have been transferred and reported under the Liquidating Electric & Financing portfolio Treasury symbol as a part of the RTB dissolution. (See Note 11.)

Value of Assets are included in the Liquidating Electric & Financing portfolio Treasury symbol at \$303,762,013.75. The transfer out of the RTB Liquidating account was in accordance with RTB Resolution 2005-8 item number two and the Loan Transfer Agreement, dated 08/04/05. These loans will now be serviced under the Rural Utilities Telecommunication program.

F. Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Since RTB is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation or borrowing authority. All of RTB's liabilities are covered by budgetary resources.

G. Operations

The Rural Electrification (RE) Act of 1936, as amended, and RTB's enabling legislation, authorize RTB to partially or jointly use the facilities and services of employees of Rural Development, or of any other agency of the USDA, without cost. In previous years, the Federal Credit Reform Act provided appropriated funds to RTB to cover administrative costs. The President's Fiscal Year 2006 Budget required \$2,500,000 for administrative costs to be transferred from the unobligated balances in the RTB liquidating account. This amount represents the additional cost to Rural Development for managing RTB. In this regard, RTB's operations are conducted by Rural Development administrative and program employees who have similar responsibilities under Rural Development's Telecommunications Program.

H. Intra-Governmental Relationships and Transactions

In the course of its operations, RTB has relationships and financial transactions with other Federal agencies. The more prominent of these are with Rural Development and the U.S. Treasury. Rural Development determines the annual cost allocations associated with the administration of RTB by Rural Development employees, and the U.S. Treasury receives the collections of proceeds from direct loans issued on behalf of RTB.

I. Liquidation and Dissolution

The President's Fiscal Year 2006 Budget proposed to establish the process and terms to implement dissolution of the RTB due to insufficient demand for the Bank's loans and the availability of adequate financing from other sources. Stockholders of the RTB will receive a cash payout for their stock at par value. In August 2005, the RTB Board unanimously approved resolutions describing the process and terms to implement the liquidation and dissolution of the RTB. With the passage of the *2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act*, there is currently no legal restriction on redeeming Government-owned Class A Stock. As a result, the liquidation and dissolution of the RTB began in earnest during the first quarter

of FY 2006. Additional information on stock owned by borrowers and third parties is reported in **Note 6**.

NOTE 2: FUND BALANCE WITH TREASURY

Amounts presented in thousands.

	March 31, 2006
Fund Balances:	
Revolving Funds	1,500,292
Total	1,500,292

	March 31, 2006
Unobligated Balance	
Available March	1,484,047
Obligated Balance	
Not Yet Disbursed	16,245
Total	1,500,292

*Amount becomes available through the Standard Form (SF) 132 process.

NOTE 3: INTEREST RECEIVABLE

Amounts presented in thousands.

	March 31, 2006
Intragovernmental	
Due from U.S. Treasury	35,760

NOTE 4: LIABILITIES

Accounts payable consists of stock balances payable that previously were reported as part of the total Net Position.

NOTE 5: COMMITMENTS AND CONTINGENCIES

The RTB has in the course of its loan making activities, unliquidated liquidating loan obligations that will require cancellations in fiscal year 2006. These unliquidated loan obligations at March 31, 2006, total approximately \$16 million.

NOTE 6: CAPITAL STOCK

Amounts presented in thousands.

	March 31, 2006
A summary of the RTB capital stock structure follows:	
CAPITAL STOCK CLASS A (\$1 par value)	
Shares authorized	600,000
Shares issued and outstanding	368,862
Cash dividends (distributed 09/05)	7,766
CAPITAL STOCK CLASS B (\$1 par value)	
Shares authorized	Unlimited
Shares issued and outstanding	525,991
Stock dividends (distributed 12/05 - included above)	35,168
CAPITAL STOCK CLASS C (\$1,000 par value)	
Shares authorized	Unlimited
Par Value, shares issued and outstanding	909,237
Cash dividends (distributed 12/05)	50,254

Capital Stock Class A

Public Laws 92-12 and 97-98 authorized Congress, in FY's 1971 through 1991, to appropriate no more than \$30 million per year for the purchase of RTB Class A stock. The law provided that Congress annually appropriate funds until such purchases approximated \$600 million. As of September 30, 2005, RTB Class A stock appropriations amounted to \$592.1 million, the total funding Rural Development received from Congress

On September 30, 2005, in accordance with Bank Board resolution 2005-6, the tenth redemption of Class A stock, in the amount of \$19.4 million occurred, leaving an outstanding balance of \$368.9 million. The current projection is that all Class A Stock will be redeemed in the third quarter of 2006.

Class A stock had a guaranteed annual dividend of 2 percent of the total funds received. Although Rural Development owns all Class A stock on behalf of the U. S. Government, the cash dividends were paid to the U.S. Treasury.

Upon receipt of the final valuation of the Liquidating Account Loan Portfolio, an adjustment was made reducing the A stock value owed by the Bank by the \$303,762,013.75; thereby leaving an A stock value owed by the Bank in the Liquidating Account of \$65,099,747.25.

Final A stock redemption will be completed in the third quarter of FY 2006.

Capital Stock Class B and C

The adoption of Resolution 2005-8 provided that the Bank will conduct no further business beginning October 1, 2005, except that which is necessary to liquidate the Bank's assets. As a result, RTB discontinued B and C stock transactions as of October 1, 2005, except as follows. The Class B stock balance increased from \$480,823,650 as of September 30, 2005, to \$525,991,250 as of December 31, 2005.

The increase of \$45,167,600 is a result of the FY 05 patronage capital distribution of \$35,167,600 and the \$10,000,000 transfer of restricted capital to B stock outstanding.

Class C Stock remained the same from September 30, 2005, in the amount of \$909,237,000.

Restricted Capital

The Omnibus Budget Reconciliation Act of 1987 required the RTB to establish a contingency reserve for interest rate fluctuations. As a result, the RTB Board of Directors amended the bylaws of RTB regarding the allocation of patronage capital and established a reserve of \$10 million. Any amounts in the reserve for interest rate fluctuations, classified as Restricted Capital on the Balance Sheet, in excess of \$10 million would be allocated as Class B stock dividends to those borrowers holding Class B stock during the fiscal year the amounts were earned. (In the first quarter of FY 2006, the Restricted Capital was distributed to the Capital Stock Class B shareholders as a patronage dividend.)

Cumulative Results of Operations

Cumulative Results of Operations are allocated to the various components of Net Position based on the requirements of the RE Act and the Credit Reform Act.

Specifically, current year results of operations are comprised of transfer-out of loans receivable, transfers-out related to downward reestimates in the program fund, and investment of others.

NOTE 7: EARNED REVENUES

Amounts presented in thousands.

	March 31, 2006
Intragovernmental Earned Revenue	
Interest Revenue from U.S. Treasury	35,760
Earned Revenue from the Public	
Interest and Penalties Revenue	0
Total Earned Revenues	35,760